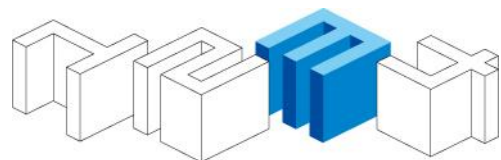




**Report for the third quarter and nine  
months ended 30 September 2010**  
(unaudited)

---





## Report for the third quarter and nine months ended 30 September 2010 (unaudited)

<b>Business name</b>	Nordecon International AS
<b>Registry number</b>	10099962
<b>Address</b>	Pärnu mnt 158/1, 11317 Tallinn
<b>Domicile</b>	Republic of Estonia
<b>Telephone</b>	+ 372 615 4400
<b>Fax</b>	+ 372 615 4401
<b>E-mail</b>	nordecon@nordecon.com
<b>Corporate website</b>	www.nordecon.com
<b>Core activities</b>	Construction of buildings (EMTAK 411; 412) Civil engineering (EMTAK 421; 422; 429) Specialised construction activities (EMTAK 431; 433; 439) Architectural and engineering activities (EMTAK 7112)
<b>Financial year</b>	1 January 2010 – 31 December 2010
<b>Reporting period</b>	1 January 2010 – 30 September 2010
<b>Council</b>	Toomas Luman, Alar Kroodo, Ain Tromp, Andri Hõbemägi, Tiina Mõis, Meelis Milder
<b>Board</b>	Jaano Vink
<b>Auditor</b>	KPMG Baltics AS



## Contents

<b>Directors' report</b>	<b>3</b>
<b>Condensed consolidated interim financial statements</b>	<b>21</b>
Condensed consolidated interim statement of financial position	22
Condensed consolidated interim statement of comprehensive income	24
Condensed consolidated interim statement of cash flows	26
Condensed consolidated interim statement of changes in equity	27
NOTE 1. Significant accounting policies	29
NOTE 2. Trade and other receivables	30
NOTE 3. Inventories	30
NOTE 4. Acquisitions and disposals	30
NOTE 5. Property, plant and equipment and intangible assets	31
NOTE 6. Finance and operating leases	32
NOTE 7. Interest-bearing loans and borrowings	32
NOTE 8. Earnings per share	33
NOTE 9. Segment reporting – business segments	33
NOTE 10. Segment reporting – geographical information	36
NOTE 11. Cost of sales	37
NOTE 12. Administrative expenses	37
NOTE 13. Other operating income and expenses	37
NOTE 14. Finance income and expenses	37
NOTE 15. Transactions with related parties	38



## Directors' report

### The Group's strategy and objectives

#### Reasons for adjusting the Group's strategy

The Group's development strategy for 2009-2013 was underpinned by the assumption that in the forthcoming years the construction market would see shrinkage in volumes, downward pressure on the end-price of the service, increasing competition and subsequent market consolidation. The factors were interpreted not only as threats but also as opportunities to be exploited for reinforcing the Group's position and facilitating its international expansion. However, in 2009 the global financial crisis and the ensuing economic downturn had a more severe impact on the Group's markets and financial performance than anticipated.

To date, the Group has suspended the operations of its Lithuanian subsidiary Nordecon Statyba UAB and at the beginning of 2010 we divested our Latvian subsidiary Nordecon Infra SIA owing to its poor operating results. In the past year and a half, operations in the Ukrainian buildings construction market have practically come to a standstill. As a result, we have had to make deep expense and job cuts at our Ukrainian subsidiary Eurocon Ukraine TOV. At the reporting date, approximately 95% of our business is conducted in Estonia.

In July 2010, the board of Nordecon International AS proposed that the council revise the Group's development strategy because achieving one of the main strategic goals (continuing internationalization) and the ultimate strategic goal by 2013 had become unrealistic.

#### **The board considered revision necessary in light of the following:**

- In 2010 the construction markets of the Baltic countries and Ukraine will remain in a slump.
- In the next few years, economic growth in the Baltic countries will be modest and the construction market cannot be expected to recover before 2012.
- The construction market is dominated by public procurement tenders that induce underbidding and do not allow construction companies to operate at their average historical profit margins.
- The decline in input prices has been replaced by a rise and the forthcoming years will reveal the extent of the risks taken/losses incurred with the intent of lowering prices.

#### The Group's revised strategy for 2010-2013

The board is of the opinion that in the next couple of years, the Group should focus on its core business in its main market Estonia where Nordecon is represented in almost all construction segments and can rely on extensive local experience. In order to adapt to adverse changes in the external environment, the Group will have to continue restructuring its operations, improving profitability by effective cost management, and creating opportunities for successfully entering the growth phase of the construction market (also in the target foreign markets).

According to the board's proposal, in 2010-2013 the Group will focus on achieving the above. The strategy for the next three years will have to support the Group's recovery from the slump and prepare ground for seizing the opportunities provided by the growth of the construction market that is anticipated to emerge in 2012.

The ultimate goal of the Group's strategy for 2009-2013 was to become the fastest growing construction group on the Nordic and Baltic stock exchanges by 2013 in terms of revenue growth. In the next few years, revenue growth will not be a priority because this would assume taking unjustified risks at margins that are unnaturally low for the construction market.

The board submitted its proposals for revising the Group's strategy for review and approval by the council in July 2010. The council approved the suggested changes at a meeting held on 10 September 2010.



### The main objectives of the strategy for 2010-2013

- To complete adjustments to the Group's structure and governance that were launched in 2009 in order to secure profitable and rapid growth in the rise phase of the market
- To operate in Latvia, Lithuania and Belarus on a project basis, assuming that this is profitable
- To continue buildings construction operations in Ukraine in 2010 in line with the former strategy and to decide the need for revising the strategy in light of the economic situation in the country in the first quarter of 2011 at the latest
- To maintain preparedness for re-launching more active operations in foreign markets (as a general contractor) as soon as the situation in the construction market has become sufficiently supportive
- To penetrate the Finnish concrete works market (as a contractor) through a subsidiary in order to support development of relevant operations
- To become the leading construction group in Estonia that earns half of its revenue from infrastructure and the other half from buildings construction by the end of 2013

**The leitmotif of the strategy for 2010-2013 is "To respond to market changes swiftly and flexibly and to enter the next economic growth cycle successfully"**

### Significant changes in the Group's structure in 2011

In a meeting held on 10 September 2010, the council of Nordecon International AS resolved to approve the board's proposal for combining Nordecon International AS, Nordecon Infra AS and Nordecon Ehitus AS and signing a corresponding merger agreement.

The board of Nordecon International AS made the merger proposal based on its vision of the changes required in the Group's strategy in 2010-2013. The board believes that in a situation of declining business volumes the Group should also redesign and streamline its management model. The merger of the three companies will provide a shorter and more flexible chain of command and should yield cost savings in the region of 15.6 million kroons (1 million euros) per year.

According to the board's proposal, the parent Nordecon International AS will merge with its wholly-held subsidiaries Nordecon Infra AS and Nordecon Ehitus AS. The combined entity will become the holder of investments in the current stand-alone subsidiaries of Nordecon Infra AS and Nordecon Ehitus AS. The Nordecon International construction group will continue operating in all its current operating segments.

The companies signed the merger agreement on 4 October 2010. The merger needs to be approved, among other parties, by the shareholders of Nordecon International AS. An extraordinary general meeting has been called for 19 November 2010. The merger report, the merger agreement and the merging entities' financial statements for the past three years as well as their unaudited statements of financial position as at 30 September 2010 have been made available on the corporate website of Nordecon International AS ([www.nordecon.com](http://www.nordecon.com)).

According to plan, all merger procedures will be completed in 2010.



## Changes in the Group's operations in the first nine months of 2010

### Changes in the Group's Estonian operations

In the first nine months of 2010, the Group's Estonian operations did not change significantly. By the end of 2009 all major planned restructuring activities were completed and since the beginning of 2010 the Group has been conducting its core business through two subgroups - Nordecon Ehitus AS and Nordecon Infra AS - specialising in buildings and infrastructure construction respectively. Nordecon International AS has acted mostly as a holding company, providing the Group with strategic management and intra-Group support services. The Group will follow the same model until the end of 2010. From 2011, Nordecon Ehitus AS and Nordecon Infra AS will merge with the parent Nordecon International AS (for further information, refer to the chapter *Significant changes in the Group's structure in 2011*) and the combined entity will continue operating under a new business name - Nordecon AS provided the proposal is approved by the shareholders at the extraordinary general meeting called for 19 November 2010.

### Changes in the Group's foreign operations

#### Latvia

The Group entered the Latvian market at the beginning of 2007 when the acquisition of OÜ Kaurits provided it with a stake in a Latvian company - SIA Abagars (later renamed Nordecon Infra SIA). In order to avoid subsequent conflicts of interest, the Group acquired the majority shareholding in the Latvian entity in May 2008. The core business of the Latvian company was construction of water and wastewater networks. Business volumes in Latvia grew swiftly and the company was awarded and delivered several large public procurement projects. However, over-rapid growth resulted in an accumulation of operational risks which in combination with drastic changes in the economic environment caused the company to incur losses in the second half of 2009. The overall downturn in the Latvian economy caused difficulties in collecting payments from customers including counter-parties related to state and local governments.

As a result, in February 2010 the board of Nordecon International AS resolved to divest the Group's entire 56% interest in Nordecon Infra SIA because it was evident that in the next few years the entity would be operating with a loss. The stake was sold to an individual (a non-controlling shareholder). After the transaction, the Group does not have any ownership interests in companies domiciled in Latvia. The financial aspects of the transaction are described in greater detail in note 4 to the interim financial statements.

In the forthcoming years, the Group will continue operating in Latvia on a project basis through its Estonian subsidiaries, involving partners where necessary. However, the continuation of project-based operations assumes the availability of profitable projects.

#### Belarus

The Group has signed a contract with a Finnish food industry company for the construction of a factory in Belarus. The project is being performed through the Group's wholly-held Belarusian subsidiary Eurocon Stroi IOOO whose establishment was completed in January 2010. At the moment, this is the Group's only project in Belarus. The Group used a similar strategy, i.e. contracts tendered by well-known Nordic or Baltic companies, for penetrating the Ukrainian market more than twelve years ago. The Group is not holding any negotiations regarding other projects and according to the Group's development strategy penetrating the Belarusian market more extensively in 2010 is not a priority. The current year and the above project will serve as a basis for getting to know the market and conducting further analyses.

#### Ukraine

There have not been any significant changes in the Group's Ukrainian operations compared with the end of 2009.

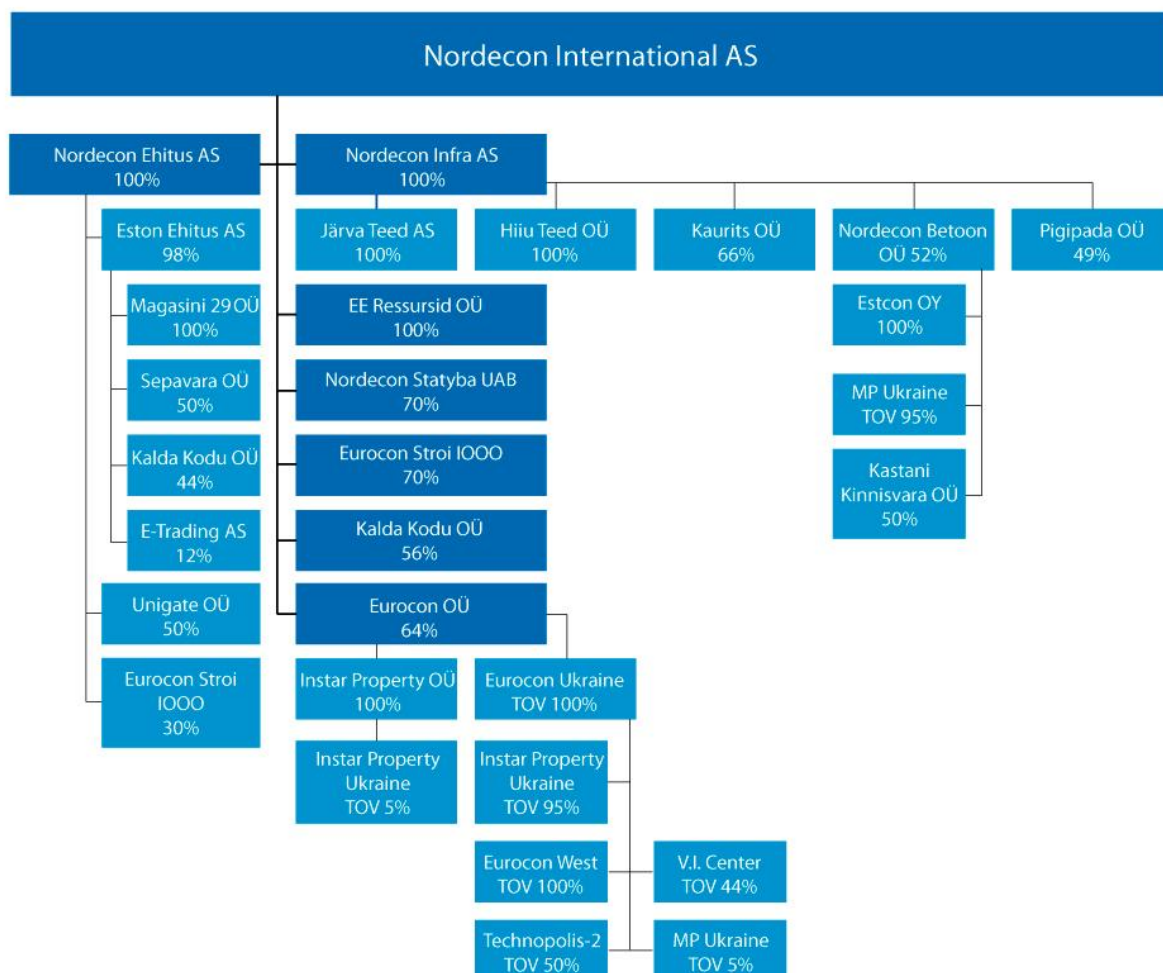
#### Finland

The Group's subsidiary Nordecon Betoon OÜ has been seeking opportunities for winning concrete works contracts in Finland since the end of 2009. For this, in the first half of 2010 a Finnish subsidiary Estcon OY was acquired from the parent. The Group undertook the transaction to support the development of its concrete works operations.



## The Group's structure and major structural changes

The Group's structure at 30 September 2010 including interests in subsidiaries and associates <sup>1</sup>



<sup>1</sup> The chart does not include the subsidiaries Eesti Ehitus OÜ, Aspi OÜ, Linnaehitus OÜ, Mapri Projekt OÜ, Kaasa Vara OÜ and Infra Ehitus OÜ that currently do not conduct any significant business operations. The first four were established to protect former business names.

### Major changes in the Group's structure in the first nine months of 2010

#### Nordecon International AS

In January, the establishment proceedings of Eurocon Stroi IOOO, a Belarusian company founded by Nordecon International AS and Nordecon Ehitus AS, were completed. The shareholders' interests are 70% and 30% respectively. The company was established for performing project-based construction work. Since Belarus is one of the Group's potential target markets, then in line with the corporate strategy the majority shareholding in the entity belongs to the Group's parent company.

In February, Nordecon International AS sold its 56% stake in the Latvian subsidiary Nordecon Infra SIA along with interests in its subsidiaries. The subsidiary was sold to an external party (a non-controlling shareholder). After the transaction, the Group has no ownership interests in companies registered in Latvia.

In April, Nordecon International AS sold 100% of its shares in the Finnish subsidiary Estcon OY to Group company Nordecon Betoone OÜ that is going to use the subsidiary for performing concrete works in Finland. Finland is not one of the Group's target markets. Therefore, transfer of the investment was not in contradiction with the Group's general investment holding strategy.

**Nordecon Infra AS**

In April, Nordecon Infra AS participated in the establishment of Pigipada OÜ, paying for a 24% stake with a monetary contribution of 9.6 thousand kroons (0.6 thousand euros). Pigipada OÜ will engage in the production of bitumen emulsion. In July, Nordecon Infra AS increased its interest in the company to 49%, paying 10 thousand kroons (0.64 thousand euros) for the additional stake.

**Eston Ehitus AS**

In March, Eston Ehitus AS established a subsidiary Kaasa Vara OÜ. The share capital of the subsidiary is 40 thousand kroons (3 thousand euros). The entity is not yet active. The company was established for executing the corporate rehabilitation plans of major debtors of Eston Ehitus AS.

In May, Eston Ehitus AS participated in the establishment of Magasini 29 OÜ, acquiring a 34% stake for a monetary contribution of 13.6 thousand kroons (0.9 thousand euros). The entity was transferred some of the assets and liabilities of Crislivinca OÜ (an existing company in which the stake of Eston Ehitus AS was also 34%) that were related to an undeveloped property in Magasini street, Tallinn.

In August, Eston Ehitus AS and AS EKE Invest completed a transaction by which they exchanged interests in Crislivinca OÜ and Magasini 29 OÜ. Before the transaction, the respective stakes of Eston Ehitus AS and AS EKE Invest were 34% and 66% in both companies. After the transaction, Eston Ehitus AS holds 100% of the shares in Magasini 29 OÜ and has no stake in Crislivinca OÜ while AS EKE Invest holds all the shares in Crislivinca OÜ and has no stake in Magasini 29 OÜ.

**Eurocon Ukraine TOV**

In March, Eurocon Ukraine TOV sold its 99% stake in the dormant subsidiary Bukovina Development TOV. After the transaction, the Group has no ownership interest in Bukovina Development TOV.





## Financial review

### Margins

Nordecon International Group ended the first nine months of 2010 with a gross loss of 8.5 million kroons (0.5 million euros). In the comparative period (first nine months of 2009), the Group earned a gross profit of 165.2 million kroons (10.6 million euros). The first two quarters of 2010 ended in a loss triggered by the combined effect of seasonal fluctuations in the construction business, unfavourable weather conditions and the recognition of potential losses from projects secured before the input prices started rising. The third quarter, on the other hand, ended in a profit. Consolidated third quarter gross profit amounted to 36.7 million kroons (2.3 million euros). In absolute terms, the third quarter profit figure was affected most by the completion of the Mäo bypass, a major project involving both design and construction operations.

Overview of seasonal fluctuations in gross profit development:

Percentage of annual gross profit	Q1	Q2	Q3	Q4	Total
<b>2006</b>	10%	20%	33%	37%	<b>100%</b>
<b>2007</b>	13%	30%	26%	31%	<b>100%</b>
<b>2008</b>	28%	38%	20%	13%	<b>100%</b>
<b>2009</b>	27%	35%	59%	-21%	<b>100%</b>

According to management's assessment, the situation in the construction market continues to be exacerbated by fierce competition that renders the gross margins of secured and new contracts lower than would be expected in a stable market. A slow but steady rise in input prices means that long-term contracts will remain exposed to the risk of loss. The Group recognised all estimated construction contract losses in the first half-year, which had a positive impact on the third quarter gross profit. It should have a positive effect also on the last quarter. Still, we remain cautious in our estimates and do not rule out the possibility that ongoing changes in the construction market may cause setbacks on certain projects.

The Group's administrative expenses for the first nine months totalled 52.7 million kroons (3.4 million euros). Compared with the first nine months of 2009, the Group has cut its administrative expenses by 45%. As at the reporting date, the ratio of administrative expenses to revenue was 4.5% (9M 2009: 4.9%). Cost saving measures have yielded good results – we have been able to lower the ratio of administrative expenses to revenue below the targeted 5% and are close to achieving the objective set at the beginning of the year according to which we should reduce operating expenses by a third compared with the previous year.

In light of the above, the Group's operating loss for the first nine months of 2010 amounted to 70.6 million kroons (4.5 million euros) (9M 2009: operating profit of 44.6 million kroons/2.9 million euros).

The Group's net loss for the period amounted to 98.7 million kroons (6.3 million euros). Its formation was significantly influenced by non-recurring financial items. One-off finance income on the sale of the Latvian operations (see note 4 to the interim financial statements) amounted to 32.6 million kroons (2.1 million euros).

During the reporting period the Group recognised an impairment loss of 40.2 million kroons (2.6 million euros) for loans granted to legal persons. The write-down concerned loans provided by group entity Eston Ehitus AS to the owners of companies that commissioned the construction of Pärnu Keskus - the Pärnu Centre. To date, it has become clear that it is not reasonable to expect that the persons involved will regain their solvency. The construction contract receivables of Eston Ehitus AS that are due from the customers of the Pärnu Centre contract total 42.4 million kroons (2.7 million euros). The Group will decide the extent to which these items should be written down in the fourth quarter, when it has become clear how the problems surrounding the construction of the Pärnu Centre and the adjoining parking house will be resolved. Further information on the project and the problems is provided in note 39 to the Group's financial statements for the year ended 31 December 2009.

The nine-month loss attributable to owners of the parent Nordecon International AS amounted to 89.5 million kroons (5.7 million euros).

### Cash flows

The Group's operating activities for the first nine months of 2010 resulted in a net cash outflow of 39.7 million kroons (2.5 million euros). The comparative period ended in a net cash inflow of 71.0 million kroons (4.5 million euros). Compared with the first half-year where operating activities generated cash inflow, the nine-month period ended in an outflow mostly on account of cyclical fluctuations in project-related cash flows. The



customers' contractual settlement terms have become longer (up to 60 days) and in the case of some projects payments have been deferred until the next year. On the other hand, the Group has completed or is completing major projects whose retentions for warranty and similar performance will be paid after the signature of the final delivery documents. According to estimates, these amounts will be settled in the last quarter when most project-related payments to subcontractors have already been made. Receipts from central and local government institutions that are funded from the state budget should also increase before the beginning of the next fiscal year.

Investing activities generated a net inflow of 9.9 million kroons (0.6 million euros) compared with a net outflow of 45.9 million kroons (2.9 million euros) for the first nine months of 2009. A significant proportion of cash outflows from investing activities (9.6 million kroons/0.6 million euros) is attributable to the disposal of the subsidiary Nordecon Infra SIA and the discontinuance of its consolidation (see note 4 to the interim financial statements). A significant proportion of cash inflows resulted from the disposal of property, plant and equipment and investment properties that generated receipts of 20.2 million kroons (1.3 million euros).

Financing activities resulted in a net cash outflow of 78.5 million kroons (5.0 million euros) compared with an outflow of 79.8 million kroons (5.0 million euros) in the first nine months of 2009. The internal structure of financing cash flows has remained stable. The Group is raising less debt capital than is required for settling its existing loan liabilities on a timely basis.

## Key financial figures and ratios

Figure / ratio	9M 2010	9M 2009	9M 2008	2009
Weighted average number of shares	30,756,728	30,756,728	30,756,728	30,756,728
Earnings per share (in kroons)	-2.91	2.13	5.06	-1.49
Earnings per share (in euros)	-0.19	0.14	0.32	-0.09
Revenue growth	-40.2%	-32.7%	9.9%	-37.5%
Average number of employees	808	1,110	1,267	1,128
Revenue per employee (in thousands of kroons)	1,457	1,773	2,306	2,144
Revenue per employee (in thousands of euros)	93	113	147	137
Personnel expenses to revenue	14.0%	14.2%	12.4%	15.0%
Administrative expenses to revenue	4.5%	4.9%	4.7%	5.2%
EBITDA <sup>1</sup> (in thousands of kroons)	-32,109	97,471	234,230	4,308
EBITDA <sup>1</sup> (in thousands of euros)	-2,052	6,230	14,970	275
EBITDA margin	-2.7%	5.0%	8.0%	0.2%
Gross margin	-0.7%	8.4%	10.7%	5.6%
Operating margin	-6.0%	2.3%	6.1%	-5.2%
Operating margin excluding gains on asset sales	-6.3%	2.1%	6.0%	-5.4%
Net margin	-8.3%	2.4%	6.3%	-3.7%
Return on invested capital	-7.4%	5.3%	18.9%	-4.1%
Return on assets	-3.9%	1.9%	7.7%	-6.0%
Return on equity	-14.7%	5.5%	21.7%	-11.4%
Equity ratio	36.7%	36.9%	35.5%	37.1%
Gearing	33.0%	25.7%	28.7%	26.4%
Current ratio	1.56	1.43	1.42	1.47
	<b>30 Sept 2010</b>	<b>30 Sept 2009</b>	<b>30 Sept 2008</b>	<b>31 Dec 2009</b>
Order book (in thousands of kroons)	1,399,269	1,612,160	3,042,654	1,530,661
Order book (in thousands of euros)	89,430	103,036	194,461	97,827

<sup>1</sup> On calculating EBITDA, non-cash expenses include depreciation and amortisation as well as impairment losses on goodwill.

Earnings per share (EPS) = net profit attributable to equity holders of the parent / weighted average number of shares outstanding  
Revenue per employee = revenue / average number of employees  
Personnel expenses to revenue = personnel expenses / revenue  
Administrative expenses to revenue = administrative expenses / revenue  
EBITDA = earnings before interest, taxes, depreciation and amortisation  
EBITDA margin = EBITDA / revenue  
Gross margin = gross profit / revenue  
Operating margin = operating profit / revenue

Operating margin excluding gains on asset sales = (operating profit - gains on sale of property, plant and equipment - gains on sale of real estate) / revenue  
Net margin = net profit for the period / revenue  
Return on invested capital = (profit before tax + interest expense) / the period's average (interest-bearing liabilities + equity)  
Return on assets = operating profit / the period's average total assets  
Return on equity = net profit for the period / the period's average total equity  
Equity ratio = total equity / total equity and liabilities  
Gearing = (interest-bearing liabilities - cash and cash equivalents) / (interest bearing liabilities + equity)  
Current ratio = total current assets / total current liabilities



## Performance by geographical market

In the first nine months of 2010, revenue earned outside Estonia accounted for around 4% of the Group's total revenue. A year ago, the contribution of foreign markets was around 15%. The decrease results from the Group's decision to sell its Latvian operations in 2010 (see also the chapter *Major changes in the Group's structure in the first nine months of 2010*). In addition, in contrast to the first nine months of 2009 the Group did not earn any revenue in Lithuania. The proportion of the Group's Ukrainian revenues has increased somewhat but mainly on account of a decrease in its Estonian revenues. The Group's vision of its further operations in the Latvian, Lithuanian and Ukrainian markets is presented in the chapter *Outlooks of the Group's geographical markets*.

	9M 2010	9M 2009	9M 2008	2009
Estonia	95.8%	84.9%	80.1%	86%
Ukraine	3.0%	2.2%	13.4%	3%
Lithuania	0%	0.5%	2.4%	0%
Latvia	0%	12.3%	4.1%	11%
Belarus	1.2%	0%	0%	0%

In the reporting period, the Group started performing a project-based construction contract in Belarus and at the end of the nine-month period related revenues accounted for around 1% of the Group's total revenue. The project in Belarus will continue until the end of the first half of 2011. Concrete works in Finland do not yet account for a percentage of consolidated revenue.

Revenue distribution between different geographical segments is a consciously deployed strategy by which the Group avoids excessive reliance on a single market. Although in the long-term perspective the Group's strategy foresees increasing foreign operations, in the short-term perspective the Group will focus on the Estonian market and seizing opportunities in an environment that it knows best and that entails comparatively fewer identified market risks.

## Performance by business line

The core business of Nordecon International Group is general contracting and project management in buildings and infrastructure construction. The Group is involved, among other things, in the construction of commercial and industrial buildings and facilities, road construction and maintenance, environmental engineering, concrete works and real estate development.

Consolidated revenue for the first nine months of 2010 amounted to 1,177.5 million kroons (75.3 million euros), a 40% decrease from the 1,967.6 million kroons (125.8 million euros) generated in the first nine months of 2009. Above all, the downturn is attributable to a significant decline in the demand for construction services in all of the Group's markets and, in the first quarter, an exceptionally snowy and cold winter that had the strongest impact on the Infrastructure segment where most of the work is done outdoors. In addition, the absolute revenue figure has been influenced by stiff competition that lowers the construction prices.

The Group aims to maintain the revenues generated by its business segments (Buildings and Infrastructure) in balance as this helps disperse risks and provides a more solid foundation under stressed circumstances when one segment experiences shrinkage. In view of estimated demand for apartments, in subsequent years the proportion of housing construction revenue will remain within the strategic 20% limit.

### Segment revenue

At the end of the first nine months of 2010, the Group's infrastructure construction revenues exceeded those of buildings construction. Considering that for some time most of the construction market tenders have been related to infrastructure (primarily projects financed with the support of the state and the EU structural funds) and that the Infrastructure segment accounts for roughly two thirds of the Group's order book, this was to be expected. However, the difference is not great because the current buildings construction contracts have a shorter term than those of infrastructure construction. It is quite clear that in the foreseeable future the contribution of the Infrastructure segment will dominate over that of Buildings.



During the first nine months of 2010 the Buildings and Infrastructure segments generated revenue of 545.4 million kroons (34.9 million euros) and 612.6 million kroons (39.2 million euros) respectively. The corresponding figures for nine months of 2009 were 872.1 million kroons (55.7 million euros) and 1,075.9 million kroons (68.8 million euros).

#### Revenue distribution between segments\*

Business segments	9M 2010	9M 2009	9M 2008	2009
Buildings	47%	44%	64%	45%
Infrastructure	53%	56%	36%	55%

\* In connection with the entry into force of IFRS 8 *Operating Segments*, the Group has changed segment reporting in its financial statements. In *Directors' report* the Ukrainian and EU Buildings segments which are disclosed separately in the financial statements are presented as a single segment. In addition, the segment information presented in *Directors' report* does not include the disclosures on "other segments" that are presented in the financial statements.

#### Revenue distribution within segments

Distribution of projects within the Buildings segment has changed significantly compared with a year ago as well as with historical annual averages. There are two main reasons for this. The scarcity of projects forces companies to compete in all market segments and the number of contracts awarded is small compared with bids made. Such a situation does not allow concentrating on a specific business area. Another important factor is the general economic environment. During the past year, private companies' investments in commercial and industrial buildings and facilities have been almost nonexistent while local governments' investments in schools, nurseries and public buildings have increased, partly thanks to the support received from the EU structural funds. The proportion of industrial buildings in the Group's portfolio is large mainly because of the ongoing construction of the Ahtme peak load boiler plant. The Group builds apartment buildings for external customers as a general contractor, not a developer. Revenue distribution within the segment should remain similar also in the last quarter.

Revenue distribution within the Buildings segment	9M 2010	9M 2009	9M 2008	2009
Commercial buildings	24%	64%	59%	66%
Industrial and warehouse facilities	31%	9%	16%	10%
Public buildings	33%	23%	14%	18%
Apartment buildings	12%	4%	11%	6%

As anticipated, as at the end of the first nine months over two thirds of the revenue generated by the Infrastructure segment is attributable to road construction and maintenance. The construction of other engineering facilities (mostly water and wastewater networks) is an area where the Group has won many tenders. Therefore, the contribution of other engineering projects will remain relatively large until the end of the year. The contribution of environmental engineering projects (e.g. the closure of landfills) has remained stable compared with 2009. Hydraulic engineering that depends heavily on the ports' investment policies has plummeted to an all-time low and its recovery at the end of the year is not likely.

Revenue distribution within the Infrastructure segment	9M 2010	9M 2009	9M 2008	2009
Road construction and maintenance	69%	43%	52%	49%
Specialist engineering (including hydraulic engineering)	1%	16%	19%	12%
Other engineering	22%	31%	23%	31%
Environmental engineering	8%	10%	6%	8%

#### Order book

At 30 September 2010, the Group's order book stood at 1,399.3 million kroons (89.4 million euros), 13% down from the 1,612.2 million kroons (103.0 million euros) posted a year ago. Over the past quarters, the decline in the Group's order book has notably decelerated and the forward order book has levelled off at around 1,350 to 1,500 million kroons (86 to 95 million euros).



	9M 2010	9M 2009	9M 2008	2009
Order book, in thousands of kroons	1,399,269	1,612,160	3,042,654	1,530,661
Order book, in thousands of euros	89,430	103,036	194,461	97,827

At 72% the Infrastructure segment continues to account for a significant proportion of the Group's total order book (9M 2009: 66%).

The value of the order portfolio has decreased due to the downturn in the construction market. In absolute terms, the order book figures have also been influenced by the year-over-year decrease in construction prices. In many segments of the construction market the decrease in input prices has ceased or turned to a rise. Therefore, in the near future the Group's management will focus on improving the profitability of the contract portfolio rather than increasing its size or growth rate.

Between the reporting date (30 September 2010) and the date of release of this report, Group companies have been awarded additional construction contracts of approximately 50 million kroons (3.2 million euros).

## People

### Staff and personnel expenses

In the first nine months of 2010, the Group (including the parent and the subsidiaries) employed, on average, 808 people including around 380 engineers and technical personnel (ETP). A significant one-off decrease in the number of staff is attributable to the divestment of the Latvian subsidiary Nordecon Infra SIA in the first quarter of 2010. At the end of 2009, the Nordecon Infra SIA subgroup employed over 160 people. In addition to disposals of companies, the number of staff has decreased on account of downsizing (lay-offs and termination of contracts). In a situation where construction volumes are expected to continue shrinking throughout the year, the headcount may decrease even further. In connection with the seasonal nature of the construction business, in the second and third quarters the number of staff increased through fixed-term contracts but at the end of the year the impact of temporary hires will disappear.

#### Average number of the Group's employees (including the parent and its subsidiaries):

	9M 2010	9M 2009	9M 2008	2009
ETP	380	456	525	467
Workers	428	654	742	661
<b>Total average</b>	<b>808</b>	<b>1,110</b>	<b>1,267</b>	<b>1,128</b>

The Group's personnel expenses for the first nine months of 2010 including all associated taxes totalled 165.1 million kroons (10.6 million euros), a 33% decrease compared with the 247.2 million kroons (15.8 million euros) incurred in the first nine months of 2009.

Personnel expenses have declined on account of downsizing and the cutting of basic salaries. In 2009, employee salaries were lowered at all Group entities; the average pay-cut for engineers and technical personnel was 15%. The performance pay of project staff that is linked to the projects' profit margins has also dropped.

In the first nine months of 2010, the remuneration of the members of the council of Nordecon International AS including associated social security charges amounted to 1,077 thousand kroons (69 thousand euros). The corresponding figure for the first nine months of 2009 was also 1,077 thousand kroons (69 thousand euros). The remuneration and benefits of the members of the board of Nordecon International AS including social security charges totalled 1,493 thousand kroons (95 thousand euros) compared with 2,701 thousand kroons (173 thousand euros) for the first nine months of 2009. The remuneration of the board has decreased because in the comparative period the board had three members whereas in the reporting period the number was two.



## Members of the council and board of Nordecon International AS

### Council

The council has six members - two represent the controlling shareholder AS Nordic Contractors, two represent small shareholders and two are independent. All members of the council have been elected by the general meeting for a term of five years.

**Toomas Luman (chairman of the council)** – a representative of AS Nordic Contractors and a major shareholder

**Alar Kroodo (vice chairman of the council)** – a representative of small shareholders

**Ain Tromp** – a representative of small shareholders

**Andri Hõbemägi** – a representative of AS Nordic Contractors

**Tiina Mõis** – an independent member

**Meelis Milder** – an independent member

### Board

According to the articles of association, the company's board may have up to five members. Members of the board are elected and appointed by the council. The term of office of a member of the board is three years.

**Jaano Vink (chairman of the board)**

Jaano Vink is a qualified construction engineer. He joined the company in 2002 as an assistant to the managing director, having previously worked for AS Muuga CT as development director and for AS Tallinna Sadam in various managerial capacities in the infrastructure department. Jaano graduated from Tallinn University of Technology with a diploma in industrial and civil engineering in 1993 and has studied International Business Administration at the Estonian Business School.

Information on the shares held by the members of the council and board of Nordecon international AS is presented in the chapter *Share and shareholders*.

### Changes in the board of Nordecon International AS

Due to the contraction of the Group's foreign operations, Priit Tiru who was responsible for coordinating the Group's foreign operations and strategic management of the buildings construction division was removed from the board of Nordecon International AS early based on a council resolution effective as of 1 November 2010.

In connection with the plan to merge Nordecon International AS with its subsidiaries Nordecon Infra AS and Nordecon Ehitus AS (see the chapter *Significant changes in the Group's structure in 2011*), the council appointed to the board of the entity that will form after the merger new members who will take office in January 2011. Jaano Vink will continue as chairman of the board. Members of the board will be Avo Ambur, Marko Raudsik and Erkki Suurorg who all have long-term experience in the construction sector as well as in the Nordecon International Group.



## Share and shareholders

### Share information

<b>ISIN code</b>	EE3100039496
<b>Short name of the security</b>	NCN1T
<b>Nominal value</b>	10.00 kroons / 0.64 euros
<b>Total number of securities issued</b>	30,756,728
<b>Number of listed securities</b>	30,756,728
<b>Listing date</b>	18 May 2006

The share capital of Nordecon International AS consists of 30,756,728 ordinary shares with a par value of 10 Estonian kroons each. Owners of ordinary shares are entitled to dividends as declared from time to time. Each share carries one vote at the general meetings of Nordecon International AS.

### Movements in the price and traded volume of the Nordecon International share, 9M 2010

Movements in the share price in kroons, daily traded volumes in the bar chart in thousands of kroons

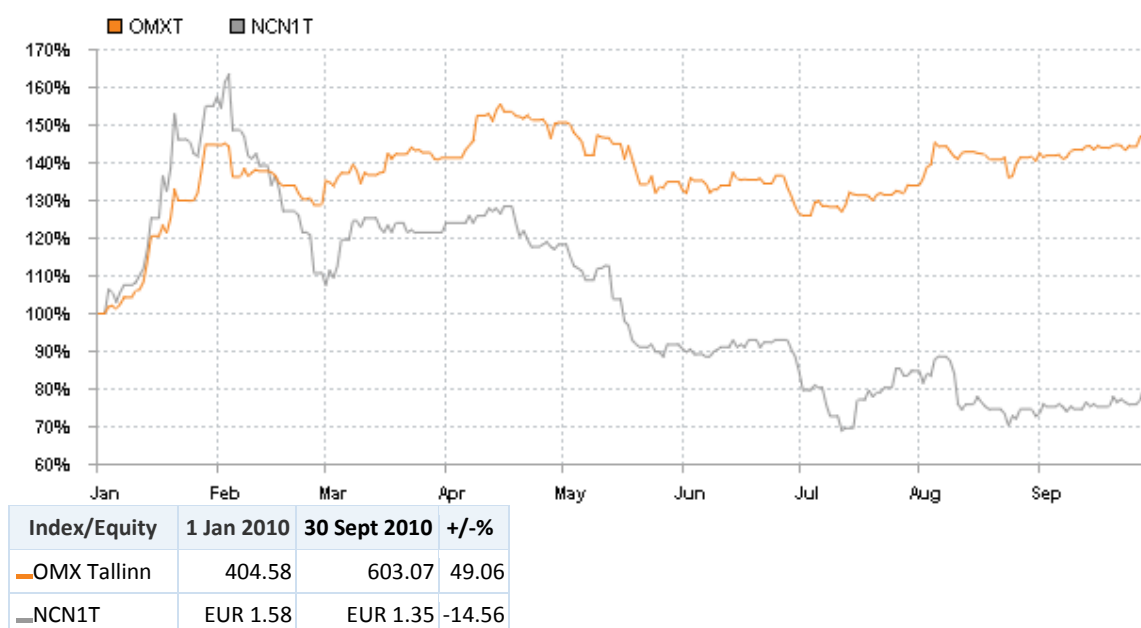


Movements in the share price in euros, daily traded volumes in the bar chart in thousands of euros





### Movement of the Nordecon International share compared with the OMX Tallinn main index in 9M 2010



### Summarised trading results

#### Share trading history (EEK)

Price	9M 2010	9M 2009	9M 2008
Open	25.35	16.43	76.51
High	40.68	25.97	76.51
Low	16.43	8.61	37.55
Last closing price	21.12	23.78	41.78
Traded volume	5,921,420	7,157,618	5,402,797
Turnover, millions	150.05	128.24	291.03
Listed volume (30 Sept), thousands	30,757	30,757	30,757
Market capitalisation (30 Sept), millions	649.59	731.40	1,285.03

#### Share trading history (EUR)

Price	9M 2010	9M 2009	9M 2008
Open	1.62	1.05	4.89
High	2.60	1.66	4.89
Low	1.05	0.55	2.40
Last closing price	1.35	1.52	2.67
Traded volume	5,921,420	7,157,618	5,402,797
Turnover, millions	9.59	8.20	18.60
Listed volume (30 Sept), thousands	30,757	30,757	30,757
Market capitalisation (30 Sept), millions	41.52	46.75	82.13





## Shareholder structure

### The largest shareholders of Nordecon International AS at 30 Sept 2010

Shareholder	Number of shares	Ownership interest
AS Nordic Contractors	16,507,464	53.67
Skandinaviska Enskilda Banken Ab Clients	2,627,841	8.54
ING Luxembourg S.A.	1,111,853	3.61
State Street Bank and Trust Omnibus Account A Fund	899,514	2.21
Ain Tromp	678,960	2.21
ASM Investments OÜ	519,600	1.69
SEB Pank AS	363,689	1.18
Aivo Kont	322,000	1.05
Martin Sööt	292,473	0.95
Skandinaviska Enskilda Banken Ab	277,410	0.90

### The shareholder structure of Nordecon International AS at 30 Sept 2010

	Number of shareholders	Ownership interest
Shareholders with interest exceeding 5%	2	62.21
Shareholders with interest between 1% and 5%	6	12.67
Shareholders with interest below 1%	2,187	25.12
<b>Total</b>	<b>2,195</b>	<b>100.00</b>

### Shares controlled by members of the council of Nordecon International AS at 30 Sept 2010

Council		Number of shares	Ownership interest
Toomas Luman (AS Nordic Contractors, OÜ Luman ja Pojad) <sup>1</sup>	Chairman of the Council	16,559,144	53.84
Ain Tromp	Member of the Council	678,960	2.21
Alar Kroodo (ASM Investments OÜ) <sup>1</sup>	Member of the Council	519,600	1.69
Andri Hõbemägi	Member of the Council	40,000	0.13
Tiina Möis	Member of the Council	0	0.00
Meelis Milder	Member of the Council	0	0.00

<sup>1</sup> Companies controlled by the individual

### Shares controlled by members of the board of Nordecon International AS at 30 Sept 2010

Board		Number of shares	Ownership interest
Jaano Vink	Chairman of the Board	34,000	0.11%
Priit Tiru	Member of the Board	0	0.00%

Members of the board and council of Nordecon International AS and companies controlled by them have not been granted any share options under which they could acquire shares in Nordecon International AS in a subsequent period.



## Outlooks of the Group's geographical markets

### Estonia

**The Group's management believes that in the last quarter of 2010 the Estonian construction market will be characterised by the following features:**

- Total demand in the construction market will remain heavily dependent on public procurement tenders and projects performed with the support of the European Union funds. Project initiation success depends on the administrative capabilities of the central and local government which have improved compared with previous periods. However, the demand resulting from public sector projects will not be able to compensate for the steep contraction of the buildings construction market that remains abandoned by most private sector companies and individuals. Accordingly, the Group's management forecasts that by the end of 2010 the total volume of the construction market will have decreased by over 50% compared with 2008.
- The number of residential and general buildings construction companies is decreasing. Companies engaged in the sector are seeking opportunities for penetrating also other market segments such as infrastructure. This has heightened competition which, in turn, has increased the number of companies going bankrupt or needing corporate rehabilitation. The trend will continue through 2010. The Group does not forecast a significant number of mergers or takeovers because in the current market situation this would not have sufficient business rationale.
- Compared with 2008 and 2009, the decrease in construction prices has ceased in 2010 and input prices will continue rising also in subsequent periods. In such a situation, performance of long-term construction contracts undertaken at unreasonably low margins or below cost may have extremely adverse consequences and may cause serious financial difficulties for companies that have not noticed the trend or have decided to ignore it due to cash flow problems.
- Banks have divided companies operating in the construction market into different risk categories. The banks' risk exposures still include the real estate and investment loans granted to companies engaged in real estate development. In 2010, the survival of a number of companies will depend on the banks' risk management principles. On the other hand, the banks have indicated that they are again willing to start financing the construction sector although to a limited extent.
- Because of the increasing importance of infrastructure projects, the key competitive advantages will include industry-specific (engineering and technical) expertise, experience and references as well as the availability of relevant resources.
- Construction projects' financing principles have changed. There are now additional requirements to the co-funding to be provided by the builder during the construction period. Moreover, contractual settlement terms have lengthened and there are settlement defaults. All this will increase the companies' liquidity risks.

### Latvia and Lithuania

In February 2010, the Group sold its loss-generating Latvian subsidiary Nordecon Infra SIA whose core business was construction of water and wastewater networks. According to the Group's assessment, the Latvian construction market will be undergoing extensive adjustment to the recessionary environment through 2010-2011. Therefore, in the next few years the Group will continue operating in Latvia on a project basis, through its Estonian subsidiaries, involving partners where necessary. Continuation of project-based business assumes that the projects can be performed profitably. The decision does not change the Group's long-term strategic objectives in the Latvian market, i.e. the objective of operating there in the future through local subsidiaries.

Recent economic developments in Lithuania have been similar to the ones in the other Baltic countries. Slowdown in investment, both in the public and private sectors, and similar factors have had a direct impact on the construction market. The commercial and residential construction markets (the Group company as a general contractor not a developer) have contracted visibly and the launch of any new private sector projects in the near future is unlikely.



In response to this, the operations of the Group's Lithuanian subsidiary Nordecon Statyba UAB have been suspended and the Group is monitoring the market situation. The temporary suspension of operations does not cause any major costs for the Group. The Group's management does not rule out the possibility that the Lithuanian operations will remain suspended also after 2010. The decision does not change the Group's long-term strategic objectives in the Lithuanian construction market, i.e. the objective of operating there in the future through local subsidiaries.

## Ukraine

In Ukraine, the Group will continue mainly as a general contractor and project manager in the construction of commercial buildings and production facilities. In 2009, the number of projects started in the buildings construction market decreased substantially. The situation in the sector is not expected to improve until after the second half of 2010. This implies, above all, the need for tight cost control.

Activities on development projects that require major investment have been suspended to minimise the risks until the situation in the Ukrainian and global financial markets eases up (the Group has currently interests in two development projects that have been conserved)

The main risks in the Ukrainian market are connected with the low administrative efficiency of the central and local government and the judicial system, inflation, and the availability of quality construction inputs. Demand is mainly undermined by the customers' lack of financing. To date, the weakening of the local currency that began in 2008 has stopped and the Group's exposure to market-based currency risk has decreased considerably. It is also clear that the political climate has stabilised after the presidential elections, which should pave the way for an improvement in the general economic climate. This, in turn, would revive investment by local and foreign companies who account for a significant proportion of the Group's customers in the Ukrainian market.

Notwithstanding the above, the Group believes that the construction market of a country with a population of 46 million will offer excellent business opportunities also in the future. The Group's key success factor is relatively little competition among project management companies (the Group offers flexible construction management in combination with European practices and competencies) compared with the real needs of a normally functioning construction market. The Group's management is confident that the current crisis in the Ukrainian construction market and economy as a whole will transform the local understanding and expectations of general contracting and project management in the construction business, which will improve the Group's position significantly in the long-term perspective.



## Description of the main risks

### Business risks

Management believes that in the near future the main business risk will be stiff competition that induces construction companies to bid unreasonably low prices in a situation where input prices have started rising and may cause steep losses. The situation is aggravated by the fact that the need for winning contracts that would cover fixed costs and overheads at a level ensuring normal operating capacities is increasing. The Group's management expects to mitigate the risks by tight cost control and effective cost cutting as well as thorough analyses of new projects.

To mitigate the risks arising from the seasonal nature of the construction business (primarily the weather conditions during the winter months), the Group has acquired road maintenance contracts that generate year-round business. In addition, Group companies are constantly seeking new technical solutions that would allow working more efficiently under changeable weather conditions.

To manage their daily construction risks, Group companies purchase Contractors' All Risks insurance. Depending on the nature of the project, both general frame agreements and special project-specific contracts are used. In addition, as a rule, subcontractors are required to secure the performance of their obligations with a bank guarantee issued for the benefit of a Group company. To remedy builder-caused deficiencies which may be detected during the warranty period, all Group companies create warranties provisions. At 30 September 2010, the provisions (including current and non-current ones) totalled 20.8 million kroons (1.3 million euros). At 30 September 2009, the corresponding figure was 17.4 million kroons (1.1 million euros).

### Credit risk

For credit risk management, a potential customer's settlement behaviour and creditworthiness are analysed already in the tendering stage. Subsequent to the signature of a contract, the customer's settlement behaviour is monitored on an ongoing basis from the making of an advance payment to adherence to the contractual settlement schedule, which usually depends on the documentation of the delivery of work performed. We believe that the system in place allows us to respond to customers' settlement difficulties with sufficient speed. At the end of the reporting period, our customers' settlement behaviour was good in the current economic situation; however, there were also some large problem customers. The proportion of overdue receivables has increased, which heightens the risk of future credit losses. In accordance with the Group's accounting policies, all receivables that are more than 180 days overdue or in respect of which no additional settlement agreements have been reached are recognised as an expense.

At the end of nine months, expenses from the write-down of receivables and income from the recovery of expensed items were practically in balance. In the comparative period, expenses from the write-down of receivables totalled 18.6 million kroons (1.2 million euros). In the fourth quarter, the Group's management will analyse to what extent the receivables related to the construction of the Pärnu Centre should be written down. The receivables total 42.4 million kroons (2.7 million euros). In the reporting period, the Group wrote down loans granted to legal persons that were related to the same project by 40.2 million kroons (2.6 million euros).

### Liquidity risk

Free funds are placed in overnight or fixed-interest term deposits with the largest banks in the markets where the Group operates. To ensure timely settlement of liabilities, approximately two weeks' working capital is kept in current accounts or overnight deposits. Where necessary, overdraft facilities are used. At the reporting date, the Group's current assets exceeded its current liabilities 1.56-fold (30 Sept 2009: 1.43-fold) and available cash funds totalled 116.9 million kroons (7.5 million euros) (30 Sept 2009: 241.4 million kroons / 15.4 million euros).

### Interest rate risk

The Group's interest-bearing liabilities to banks have mainly fixed interest rates. Finance lease liabilities have floating interest rates and are linked to EURIBOR. At 30 September 2010, the Group's interest-bearing loans and borrowings totalled 481.7 million kroons (30.8 million euros), a 128.7 million kroon (8.2 million euro) decrease year-over-year. Interest expense for the first nine months of 2010 amounted to 11.5 million kroons (0.7 million euros). Compared with the first nine months of 2009, interest expense has contracted by 8.5 million kroons (0.5 million euros), primarily on account of a decrease in loans and borrowings.



The Group's interest rate risk results mainly from two factors: an increase in the base rate for floating interest rates (EURIBOR) and insufficient operating cash flow that may render the Group unable to settle its interest expense. The first factor is mitigated by fixing, where possible, the interest rates of liabilities during the period of low market interest rates. The realisation of the cash flow risk depends on the success of operating activities. The Group does not use derivatives to hedge the interest rate risk.

#### Currency risk

As a rule, construction contracts and subcontractors' service contracts are made in the currency of the host country: in Estonia in Estonian kroons (EEK) and in Ukraine in Ukrainian hryvnas (UAH). In connection with shrinkage in operations in Latvia and Lithuania, the currency risks of those countries are no longer relevant. Services purchased from other countries are mostly priced in euros, which does not constitute a currency risk for the Group's Estonian entities.

The Group's foreign exchange gains and losses result mainly from its Ukrainian operations because the Ukrainian national currency floats against the euro and, consequently, against the Estonian kroon. To date, the weakening of the Ukrainian hryvna against the euro that began in the last quarter of 2008 has ceased.

The Group's exchange gains and losses for the first nine months of 2010 resulted in a net exchange loss of 5.7 million kroons (0.4 million euros). In the comparative period, exchange differences resulted in a net exchange gain of 6.9 million kroons (0.4 million euros).

#### Management's confirmation and signatures

**The board confirms that the Directors' report presents fairly all significant events that occurred during the reporting period as well as their impact on the condensed consolidated interim financial statements, contains a description of the main risks and uncertainties, and provides an overview of all significant transactions with related parties.**

Jaano Vink

Chairman of the Board

9 November 2010



## Condensed consolidated interim financial statements

### Statement of management's responsibility

The board of Nordecon International AS acknowledges its responsibility for the preparation of the Group's condensed consolidated interim financial statements (unaudited) for the first nine months and third quarter of 2010 and confirms that:

- the policies applied on the preparation of the condensed consolidated interim financial statements comply with International Financial Reporting Standards as adopted by the European Union;
- the condensed consolidated interim financial statements, which have been prepared in accordance with effective financial reporting standards, give a true and fair view of the assets and liabilities of the Group comprising of the parent company and other Group entities as well as its financial position, its financial performance, and its cash flows;
- all significant events that occurred before the date on which the condensed consolidated interim financial statements were authorised for issue (9 November 2010) have been properly recognised and disclosed; and
- Nordecon International AS and its subsidiaries are going concerns.

Jaano Vink

Chairman of the Board

9 November 2010



## Condensed consolidated interim statement of financial position

EEK'000	Note	30 Sept 2010	31 Dec 2009
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		116,933	225,191
Trade and other receivables	2	667,157	644,704
Prepayments		33,425	30,595
Inventories	3	374,323	389,328
Non-current assets held for sale		4,948	4,617
<b>Total current assets</b>		<b>1,196,786</b>	<b>1,294,435</b>
<b>Non-current assets</b>			
Investments in equity accounted investees		1,955	2,191
Other investments		414	414
Trade and other receivables		26,740	33,329
Investment property		77,135	87,975
Property, plant and equipment	5	150,288	204,115
Intangible assets	5	248,028	268,233
<b>Total non-current assets</b>		<b>504,560</b>	<b>596,257</b>
<b>TOTAL ASSETS</b>		<b>1,701,346</b>	<b>1,890,692</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Loans and borrowings	6, 7	187,056	262,959
Trade payables		434,050	377,925
Other payables		74,268	94,580
Deferred income		60,577	136,438
Provisions		12,413	10,364
<b>Total current liabilities</b>		<b>768,364</b>	<b>882,266</b>
<b>Non-current liabilities</b>			
Loans and borrowings	6, 7	294,691	294,328
Trade payables		3,276	4,846
Other payables		1,500	1,500
Provisions		8,428	7,041
<b>Total non-current liabilities</b>		<b>307,895</b>	<b>307,715</b>
<b>TOTAL LIABILITIES</b>		<b>1,076,259</b>	<b>1,189,981</b>
<b>EQUITY</b>			
Share capital		307,567	307,567
Statutory capital reserve		40,024	40,012
Translation reserve		-3,573	-3,201
Retained earnings		255,749	345,280
<b>Total equity attributable to equity holders of the parent</b>		<b>599,767</b>	<b>689,658</b>
<b>Non-controlling interest</b>		<b>25,320</b>	<b>11,053</b>
<b>TOTAL EQUITY</b>		<b>625,087</b>	<b>700,711</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,701,346</b>	<b>1,890,692</b>



## Condensed consolidated interim statement of financial position (continued)

EUR`000	Note	30 Sept 2010	31 Dec 2009
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		7,473	14,392
Trade and other receivables	2	42,639	41,204
Prepayments		2,136	1,955
Inventories	3	23,924	24,883
Non-current assets held for sale		316	295
<b>Total current assets</b>		<b>76,489</b>	<b>82,729</b>
<b>Non-current assets</b>			
Investments in equity accounted investees		125	140
Other investments		26	26
Trade and other receivables		1,709	2,130
Investment property		4,930	5,623
Property, plant and equipment	5	9,605	13,045
Intangible assets	5	15,852	17,143
<b>Total non-current assets</b>		<b>32,247</b>	<b>38,108</b>
<b>TOTAL ASSETS</b>		<b>108,736</b>	<b>120,837</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Loans and borrowings	6, 7	11,955	16,806
Trade payables		27,741	24,154
Other payables		4,747	6,045
Deferred income		3,872	8,720
Provisions		793	662
<b>Total current liabilities</b>		<b>49,107</b>	<b>56,387</b>
<b>Non-current liabilities</b>			
Loans and borrowings	6, 7	18,834	18,811
Trade payables		209	310
Other payables		96	96
Provisions		539	450
<b>Total non-current liabilities</b>		<b>19,678</b>	<b>19,667</b>
<b>TOTAL LIABILITIES</b>		<b>68,785</b>	<b>76,054</b>
<b>EQUITY</b>			
Share capital		19,657	19,657
Statutory capital reserve		2,558	2,557
Translation reserve		-228	-205
Retained earnings		16,345	22,067
<b>Total equity attributable to equity holders of the parent</b>		<b>38,332</b>	<b>44,077</b>
<b>Non-controlling interest</b>		<b>1,618</b>	<b>706</b>
<b>TOTAL EQUITY</b>		<b>39,950</b>	<b>44,784</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>108,736</b>	<b>120,837</b>





## Condensed consolidated interim statement of comprehensive income

EEK`000	Note	Q3 2010	Q3 2009	9M 2010	9M 2009	2009
Revenue	9, 10	592,311	742,546	1,177,511	1,967,640	2,418,880
Cost of sales	11	-555,651	-661,677	-1,186,055	-1,802,418	-2,282,575
<b>Gross profit / loss</b>		<b>36,660</b>	<b>80,869</b>	<b>-8,544</b>	<b>165,222</b>	<b>136,305</b>
Distribution expenses		-1,316	-2,427	-4,442	-6,790	-9,416
Administrative expenses	12	-17,143	-30,532	-52,700	-95,882	-125,206
Other operating income	13	2,116	2,279	7,774	22,177	25,592
Other operating expenses	13	-5,387	-10,745	-12,720	-40,118	-154,014
<b>Operating profit / loss</b>		<b>14,930</b>	<b>39,444</b>	<b>-70,632</b>	<b>44,609</b>	<b>-126,739</b>
Finance income	14	1,790	4,907	44,070	35,809	86,513
Finance expenses	14	-44,547	-3,933	-67,773	-26,845	-33,934
<b>Net finance income / expense</b>		<b>-42,757</b>	<b>974</b>	<b>-23,703</b>	<b>8,964</b>	<b>52,579</b>
Share of profit / loss of equity accounted investees		-3,736	583	-4,367	-1,523	-7,666
<b>Profit / loss before income tax</b>		<b>-31,563</b>	<b>41,001</b>	<b>-98,702</b>	<b>52,050</b>	<b>-81,826</b>
Income tax expense / income		-635	-578	1,177	5,317	-7,618
<b>Profit / loss for the period</b>		<b>-32,198</b>	<b>41,579</b>	<b>-97,525</b>	<b>46,733</b>	<b>-89,444</b>
<b>Other comprehensive income / expense:</b>						
Exchange differences on translating foreign operations		1,113	-769	-372	-2,480	905
<b>Total other comprehensive income / expense for the period</b>		<b>1,113</b>	<b>-769</b>	<b>-372</b>	<b>-2,480</b>	<b>905</b>
<b>TOTAL COMPREHENSIVE INCOME / EXPENSE FOR THE PERIOD</b>		<b>-31,085</b>	<b>40,810</b>	<b>-97,897</b>	<b>44,253</b>	<b>-88,539</b>
<b>Profit / loss attributable to:</b>						
- Owners of the parent		-30,257	42,260	-89,531	65,436	-45,740
- Non-controlling interests		-1,941	-2,681	-7,994	-18,703	-43,704
<b>Profit / loss for the period</b>		<b>-32,198</b>	<b>41,579</b>	<b>-97,525</b>	<b>46,733</b>	<b>-89,444</b>
<b>Total comprehensive income / expense attributable to:</b>						
- Owners of the parent		-29,144	42,776	-89,903	65,245	-44,835
- Non-controlling interests		-1,941	-1,966	-7,994	-20,992	-43,704
<b>Total comprehensive income / expense</b>		<b>-31,085</b>	<b>40,810</b>	<b>-97,897</b>	<b>44,253</b>	<b>-88,539</b>
<b>Earnings per share attributable to owners of the parent:</b>						
Basic earnings per share (EEK)	8	-0.98	1.37	-2.91	2.13	-1.49
Diluted earnings per share (EEK)	8	-0.98	1.37	-2.91	2.13	-1.49



## Condensed consolidated interim statement of comprehensive income (continued)

EUR`000	Note	Q3 2010	Q3 2009	9M 2010	9M 2009	2009
Revenue	9, 10	37,856	47,457	75,257	125,755	154,595
Cost of sales	11	-35,512	-42,289	-75,803	-115,196	-145,883
<b>Gross profit / loss</b>		<b>2,344</b>	<b>5,168</b>	<b>-546</b>	<b>10,560</b>	<b>8,711</b>
Distribution expenses		-84	-155	-284	-434	-602
Administrative expenses	12	-1,096	-1,951	-3,368	-6,128	-8,002
Other operating income	13	135	146	497	1,417	1,636
Other operating expenses	13	-345	-687	-813	-2,564	-9,843
<b>Operating profit / loss</b>		<b>954</b>	<b>2,521</b>	<b>-4,514</b>	<b>2,851</b>	<b>-8,100</b>
Finance income	14	114	314	2,817	2,289	5,529
Finance expenses	14	-2,847	-251	-4,332	-1,716	-2,169
<b>Net finance income / expense</b>		<b>-2,733</b>	<b>62</b>	<b>-1,515</b>	<b>573</b>	<b>3,360</b>
Share of profit / loss of equity accounted investees		-239	37	-279	-97	-490
<b>Profit / loss before income tax</b>		<b>-2,017</b>	<b>2,620</b>	<b>-6,308</b>	<b>3,326</b>	<b>-5,230</b>
Income tax expense / income		-41	-37	75	340	-487
<b>Profit / loss for the period</b>		<b>-2,058</b>	<b>2,657</b>	<b>-6,233</b>	<b>2,986</b>	<b>-5,717</b>
<b>Other comprehensive income / expense:</b>						
Exchange differences on translating foreign operations		71	-49	-24	-159	58
<b>Total other comprehensive income / expense for the period</b>		<b>71</b>	<b>-49</b>	<b>-24</b>	<b>-159</b>	<b>58</b>
<b>TOTAL COMPREHENSIVE INCOME / EXPENSE FOR THE PERIOD</b>		<b>-1,987</b>	<b>2,608</b>	<b>-6,257</b>	<b>2,828</b>	<b>-5,659</b>
<b>Profit / loss attributable to:</b>						
- Owners of the parent		-1,934	2,828	-5,722	4,182	-2,923
- Non-controlling interests		-124	-171	-511	-1,195	-2,793
<b>Profit / loss for the period</b>		<b>-2,058</b>	<b>2,657</b>	<b>-6,233</b>	<b>2,986</b>	<b>-5,717</b>
<b>Total comprehensive income / expense attributable to:</b>						
- Owners of the parent		-1,863	2,734	-5,746	4,170	-2,865
- Non-controlling interests		-124	-126	-511	-1,342	-2,793
<b>Total comprehensive income / expense</b>		<b>-1,987</b>	<b>2,608</b>	<b>-6,257</b>	<b>2,828</b>	<b>-5,659</b>
<b>Earnings per share attributable to owners of the parent:</b>						
Basic earnings per share (EUR)	8	-0.06	0.09	-0.19	0.14	-0.10
Diluted earnings per share (EUR)	8	-0.06	0.09	-0.19	0.14	-0.10



## Condensed consolidated interim statement of cash flows

		EEK`000		EUR`000	
	Note	9M 2010	9M 2009	9M 2010	9M 2009
<b>Cash flows from operating activities</b>					
Cash receipts from customers		1,245,679	2,581,192	79,613	164,968
Cash paid to suppliers		-1,066,956	-2,089,618	-68,191	-133,551
VAT paid		-46,600	-79,100	-2,978	-5,055
Cash paid to and for employees		-170,672	-331,652	-10,908	-21,196
Income tax paid		-1,188	-9,867	-76	-631
<b>Net cash from / used in operating activities</b>		<b>-39,737</b>	<b>70,955</b>	<b>-2,540</b>	<b>4,535</b>
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment		-1,359	-1,317	-87	-84
Acquisition of intangible assets		0	-7,588	0	-485
Proceeds from sale of property, plant and equipment and intangible assets		9,635	5,118	616	327
Proceeds from sale of investment property	5	10,600	-200	677	-13
Acquisition of subsidiaries, net of cash acquired	4	27	-11,688	1	-747
Disposal of subsidiaries, net of cash transferred	4	-9,675	0	-618	0
Acquisition of associates	4	-5,020	-6,000	-321	-383
Proceeds from disposal of associates	4	0	7,024	0	449
Acquisition of interests in joint ventures	4	0	-20,000	0	-1,278
Loans granted		-7,772	-84,843	-497	-5,422
Repayment of loans granted		8,750	61,040	559	3,901
Dividends received		61	61	4	4
Interest received		4,608	12,524	295	800
<b>Net cash from / used in investing activities</b>		<b>9,855</b>	<b>-45,869</b>	<b>630</b>	<b>-2,931</b>
<b>Cash flows from financing activities</b>					
Proceeds from loans received		83,012	193,432	5,305	12,427
Repayment of loans received		-116,143	-179,952	-7,423	-11,501
Dividends paid	8	0	-31,933	0	-2,041
Payment of finance lease liabilities		-30,507	-37,648	-1,950	-2,406
Interest paid		-14,629	-23,344	-935	-1,492
Other payments made		-248	-307	-16	-20
<b>Net cash used in financing activities</b>		<b>-78,515</b>	<b>-79,752</b>	<b>-5,017</b>	<b>-5,033</b>
<b>Net cash flow</b>		<b>-108,397</b>	<b>-54,666</b>	<b>-6,928</b>	<b>-3,494</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>225,191</b>	<b>296,184</b>	<b>14,392</b>	<b>18,930</b>
Effect of exchange rate fluctuations		139	-92	9	-6
Decrease in cash and cash equivalents		-108,397	-54,666	-6,928	-3,494
<b>Cash and cash equivalents at end of period</b>		<b>116,933</b>	<b>241,426</b>	<b>7,473</b>	<b>15,430</b>



## Condensed consolidated interim statement of changes in equity

EEK`000	Equity attributable to equity holders of the parent					Non-controlling interest	Total
	Share capital	Statutory capital reserve	Translation reserve	Retained earnings	Total		
<b>At 31 Dec 2008</b>	<b>307,567</b>	<b>34,800</b>	<b>-4,106</b>	<b>426,995</b>	<b>765,256</b>	<b>98,056</b>	<b>863,312</b>
Total comprehensive income / expense for the period	0	0	-192	65,436	65,245	-20,992	44,253
Dividends declared	0	0	0	-30,756	-30,756	-1,176	-31,932
Transfer to capital reserve		5,212	0	-5,212	0	0	0
Changes in non-controlling interest	0	0	0	-8	-8	-50,155	-50,163
<b>At 30 Sept 2009</b>	<b>307,567</b>	<b>40,012</b>	<b>-4,298</b>	<b>456,453</b>	<b>799,734</b>	<b>25,733</b>	<b>825,467</b>
<b>At 31 Dec 2009</b>	<b>307,567</b>	<b>40,012</b>	<b>-3,201</b>	<b>345,280</b>	<b>689,658</b>	<b>11,053</b>	<b>700,711</b>
Total comprehensive expense for the period	0	0	-372	-89,531	-89,903	-7,994	-97,897
Transfer to capital reserve	0	12	0	0	12	0	12
Changes in non-controlling interest	0	0	0	0	0	22,261	22,261
<b>At 30 Sept 2010</b>	<b>307,567</b>	<b>40,024</b>	<b>-3,573</b>	<b>255,749</b>	<b>599,767</b>	<b>25,320</b>	<b>625,087</b>



## Condensed consolidated interim statement of changes in equity (continued)

EUR`000	Equity attributable to equity holders of the parent					Non-controlling interest	Total
	Share capital	Statutory capital reserve	Translation reserve	Retained earnings	Total		
<b>At 31 Dec 2008</b>	<b>19,657</b>	<b>2,224</b>	<b>-262</b>	<b>27,290</b>	<b>48,909</b>	<b>6,267</b>	<b>55,176</b>
Total comprehensive income / expense for the period	0	0	-13	4,182	4,170	-1,342	2,828
Dividends declared	0	0	0	-1,966	-1,966	-75	-2,041
Transfer to capital reserve	0	333	0	-333	0	0	0
Changes in non-controlling interest	0	0	0	0	0	-3,205	-3,205
<b>At 30 Sept 2009</b>	<b>19,657</b>	<b>2,557</b>	<b>-275</b>	<b>29,173</b>	<b>51,112</b>	<b>1,645</b>	<b>52,756</b>
<b>At 31 Dec 2009</b>	<b>19,657</b>	<b>2,557</b>	<b>-205</b>	<b>22,067</b>	<b>44,077</b>	<b>706</b>	<b>44,784</b>
Total comprehensive expense for the period	0	0	-24	-5,722	-5,746	-511	-6,257
Transfer to capital reserve	0	1	0	0	1	0	1
Changes in non-controlling interest	0	0	0	0	0	1,423	1,423
<b>At 30 Sept 2010</b>	<b>19,657</b>	<b>2,558</b>	<b>-228</b>	<b>16,345</b>	<b>38,332</b>	<b>1,618</b>	<b>39,950</b>



## Notes to the condensed consolidated interim financial statements

### NOTE 1. Significant accounting policies

Nordecon International AS is a company incorporated and domiciled in Estonia. The shares of Nordecon International AS (the Company) have been listed on the NASDAQ OMX Tallinn Stock Exchange since 18 May 2006. The Company's controlling shareholder is AS Nordic Contractors that holds 53.67% of the shares in Nordecon International AS.

The condensed consolidated interim financial statements as at and for the nine months ended 30 September 2010 have been prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* as adopted by the European Union. The condensed interim financial statements do not contain all the information to be presented in the annual financial statements and they should be read in conjunction with the Group's latest published annual consolidated financial statements as at and for the year ended 31 December 2009.

The Group has not changed its significant accounting policies compared with the consolidated financial statements as at and for the year ended 31 December 2009. The effect of any new and revised standards effective for the reporting period is described in this note.

According to management's assessment, the condensed consolidated interim financial statements of Nordecon International AS for the third quarter and first nine months of 2010 give a true and fair view of the Group's result of operations and the parent and all its subsidiaries that are included in these financial statements are going concerns. The condensed consolidated interim financial statements have not been audited or otherwise checked by auditors and they contain only the consolidated financial statements of the Group

These condensed consolidated interim financial statements are presented in Estonian kroons (EEK) and in euros (EUR), rounded to the nearest thousand, unless indicated otherwise. Numerical data in the tables is presented in thousands of currency units. According to the quotation of the Bank of Estonia, the Estonian kroon – euro exchange rate is 15.6466 kroons to 1 euro.

#### Standards effective from 1 January 2010 that have an impact on the Group's financial statements:

- IAS 27 (revised) – *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009)

The Group has adopted the terminological changes imposed by the standard as well as the principles provided by the standard for accounting for disposals of subsidiaries.

#### New and revised standards and interpretations effective as of 1 January 2010 that are not relevant for the Group on the preparation of the interim financial statements:

- IFRS 3 (revised) – *Business Combinations* (effective for annual periods beginning on or after 1 July 2009)
- IFRIC 15 (revised) – *Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2010)

#### Changes in the presentation of the interim financial statements

The Group has made changes in the presentation of the consolidated statement of financial position and consolidated statement of comprehensive income with a view to improving the legibility of the financial statements. The changes comprise reclassifications as well as aggregations and separations of items. Because the changes constituted changes in presentation, they did not impact the Group's equity or the total amounts of the Group's assets and liabilities, the profit figures presented in the statement of comprehensive income (e.g. operating profit) or earnings per share for the periods presented in the financial statements. According to management's assessment, the changes in presentation are not so significant that as a whole they would influence the decisions made based on the information disclosed in the financial statements. Therefore, the changes are not described in detail in these financial statements.



## NOTE 2. Trade and other receivables

	Note	EEK`000		EUR`000	
Current portion		30 Sept 2010	31 Dec 2009	30 Sept 2010	31 Dec 2009
Trade receivables		290,812	338,767	18,586	21,651
Retentions receivable		41,261	36,884	2,637	2,357
Receivables from related parties		28,329	47,268	1,810	3,021
Loans to related parties	15	145,647	137,034	9,309	8,758
Loans to legal persons (including interest receivable)	14	0	40,241	0	2,572
Miscellaneous receivables		14,364	8,963	918	573
<b>Total receivables and loans granted</b>		<b>520,413</b>	<b>609,157</b>	<b>33,260</b>	<b>38,932</b>
Due from customers for contract work		146,744	35,547	9,379	2,272
<b>Total trade and other receivables</b>		<b>667,157</b>	<b>644,704</b>	<b>42,639</b>	<b>41,204</b>

	Note	EEK`000		EUR`000	
Non-current portion		30 Sept 2010	31 Dec 2009	30 Sept 2010	31 Dec 2009
Retentions receivable		0	1,046	0	67
Receivables from related parties		967	967	62	62
Loans to related parties	15	23,222	28,765	1,484	1,838
Miscellaneous receivables		2,551	2,551	163	163
<b>Total trade and other receivables</b>		<b>26,740</b>	<b>33,329</b>	<b>1,709</b>	<b>2,130</b>

Trade and other receivables have been significantly influenced by the divestment and subsequent discontinuance of the consolidation of the subsidiary Nordecon Infra SIA (see also note 4). Through the transaction, receivables decreased by 78,318 thousand kroons (5,005 thousand euros).

Trade receivables are presented net of impairment allowances which at the reporting date totalled -10,467 thousand kroons/-669 thousand euros (31 December 2009: -11,262 thousand kroons/-720 thousand euros).

Amounts due from customers have increased on account of the seasonal nature of the construction business.

## NOTE 3. Inventories

	EEK`000		EUR`000	
	30 Sept 2010	31 Dec 2009	30 Sept 2010	31 Dec 2009
Raw and other materials	40,940	48,365	2,617	3,091
Work in progress	55,647	63,573	3,556	4,063
Real estate held for resale	212,396	193,851	13,575	12,390
Finished goods	65,340	83,539	4,176	5,339
<b>Total inventories</b>	<b>374,323</b>	<b>389,328</b>	<b>23,924</b>	<b>24,883</b>

Real estate held for resale (properties designed for development) has increased primarily in connection with the establishment of the subsidiary Magasini 29 OÜ. See note 4 to the interim financial statements.

The balance of finished goods that comprises apartments completed but not yet sold has decreased through the sale of apartments. The Group did not perform any additional write-downs in the first nine months of 2010.

## NOTE 4. Acquisitions and disposals

### Subsidiaries

#### Disposal of the investment in Nordecon Infra SIA

In February 2010, Nordecon International AS sold its 56% stake in the Latvian subsidiary Nordecon Infra SIA. Nordecon Infra SIA operated mainly in the Riga region in Latvia and its core business was the construction of water and wastewater networks.



At the date of sale, the share capital of Nordecon Infra SIA amounted to 3,045 Latvian lats (approximately 67 thousand kroons/4.3 thousand euros). The investment was sold to a non-controlling shareholder for 0.1 thousand kroons (0 thousand euros). In the second half of 2009, Nordecon Infra SIA operated with a loss and, therefore, its equity was negative. As a result of the transaction, the Group recognised sales gain of 32,594 thousand kroons (2,083 thousand euros), which was recorded in finance income (see note 14). In the cash flow statement, cash outflows from the transaction represent the subsidiary's cash and cash equivalents as at the date of sale of 9,899 thousand kroons (633 thousand euros).

On the sale of Nordecon Infra SIA, the Group derecognised the goodwill acquired on the acquisition of the subsidiary of 1,710 thousand kroons (109 thousand euros). Associated expenses were recorded in other operating expenses (see note 13). After the sale, the Group wrote down loans to Group companies and other receivables because the recovery of items due from Nordecon Infra SIA was doubtful. The write-down expenses amounted to 14,175 thousand kroons (906 thousand euros) and 343 thousand kroons (22 thousand euros) respectively. Expenses from the write-down of loans were recognised in finance expenses (see note 14) and expenses from the write-down of other receivables were recognised in other operating expenses (see note 13).

The Group will remain liable for the construction contract guarantees (mainly warranty period guarantees) issued in its name to Latvian customers. At the date of the transaction, the unexpired balance of such long-term guarantees was approximately 47,000 thousand kroons (3,000 thousand euros).

The Group discontinued consolidation of the Latvian subsidiary from January 2010 because after the date of sale it was no longer possible to obtain reliable financial data on the entity.

#### **Disposal of the investment in Bukovina Development TOV**

In the first quarter of 2010, Eurocon Ukraine TOV sold its 99% stake in the Ukrainian company Bukovina Development TOV. The Group's stake in Eurocon Ukraine TOV is 64%. Bukovina Development TOV never conducted any business operations. After the transaction, the Group has no stake in Bukovina Development TOV. The transaction gave rise to finance income of 33 thousand kroons (2 thousand euros).

## **Associates**

#### **Establishment of Pigipada OÜ**

In April 2010, the Group's subsidiary Nordecon Infra AS participated in the establishment of Pigipada OÜ, a company domiciled in Estonia, paying for a 24% stake in the entity's share capital with a monetary contribution of 9.6 thousand kroons (0.6 thousand euros). According to plan, Pigipada OÜ will start producing bitumen emulsion. In July, Nordecon Infra AS increased its interest in the entity to 49%, paying for the additional stake with a monetary contribution of 10 thousand kroons (0.6 thousand euros).

#### **Establishment of Magasini 29 OÜ**

In May 2010, the Group's subsidiary Eston Ehitus AS participated in the establishment of Magasini 29 OÜ, a company domiciled in Estonia, acquiring a 34% stake for a monetary contribution of 13.6 thousand kroons (0.9 thousand euros). The entity was established so that it could be transferred some of the assets and liabilities of Crislivinka OÜ (in which the stake of Eston Ehitus AS was also 34%) that were related to a property in Magasini street, Tallinn. In August, Eston Ehitus AS completed a transaction by which it increased its interest in the associate Magasini 29 OÜ from 34% to 100%. The additional 66% was acquired through a barter transaction in which Eston Ehitus AS exchanged its 34% stake in Crislivinka OÜ for a 66% stake in Magasini 29 OÜ. After the transaction, Eston Ehitus AS has no ownership interest in Crislivinka OÜ. On the separation of Crislivinka OÜ, one of its two real estate holdings in Magasini street, Tallinn, was transferred to Magasini 29 OÜ along with associated loan obligations.

## **NOTE 5. Property, plant and equipment and intangible assets**

#### **Property, plant and equipment**

In the third quarter of 2010, the Group did not perform any major transactions with items of property, plant and equipment. The carrying amount of property, plant and equipment has decreased compared with 31 December





2009 mainly through depreciation and the discontinuance of the consolidation of the subsidiary Nordecon Infra SIA. The latter transaction reduced the carrying amount of property, plant and equipment by 18,736 thousand kroons (1,197 thousand euros).

#### Intangible assets

In the first nine months of 2010, the Group did not perform any major transactions with intangible assets. The carrying amount of intangible assets has decreased compared with 31 December 2009 mainly through amortisation and the discontinuance of the consolidation of the subsidiary Nordecon Infra SIA (see also note 4). The latter transaction reduced the carrying amount of intangible assets by 21,042 thousand kroons (1,345 thousand euros). In connection with the disposal of Nordecon Infra SIA, the Group derecognised the goodwill acquired on the acquisition of the subsidiary of 1,710 thousand kroons (109 thousand euros) (see note 13).

## NOTE 6. Finance and operating leases

	EEK`000		EUR`000	
	30 Sept 2010	31 Dec 2009	30 Sept 2010	31 Dec 2009
<b>Finance lease liabilities</b>				
Payable in less than 1 year	32,768	42,434	2,094	2,712
Payable between 1 and 5 years	37,881	64,836	2,421	4,145
<b>Total</b>	<b>70,649</b>	<b>107,270</b>	<b>4,515</b>	<b>6,857</b>
Base currency EUR	69,970	105,513	4,472	6,744
Base currency UAH	679	1,757	43	112
Periodicity of payment	Monthly	Monthly	Monthly	Monthly
Interest rates in Estonia	3.0%-8.0%	3.0%-8.0%	3.0%-8.0%	3.0%-8.0%
Interest rates in Ukraine	10%-12%	10%-12%	10%-12%	10%-12%
<b>Finance lease payments made</b>	<b>9M 2010</b>	<b>9M 2009</b>	<b>9M 2010</b>	<b>9M 2009</b>
Principal payments	30,507	37,452	1,950	2,394
Interest payments	1,948	4,451	124	284
		EEK`000		EUR`000
<b>Operating lease rentals paid for:</b>	<b>9M 2010</b>	<b>9M 2009</b>	<b>9M 2010</b>	<b>9M 2009</b>
Cars	8,639	12,062	552	771
Construction equipment	14,373	34,005	919	2,173
Premises	4,626	8,685	296	555
Software	2,725	6,842	174	437
<b>Total operating lease rentals paid</b>	<b>30,363</b>	<b>61,594</b>	<b>1,941</b>	<b>3,936</b>

## NOTE 7. Interest-bearing loans and borrowings

	EEK`000		EUR`000	
	30 Sept 2010	31 Dec 2009	30 Sept 2010	31 Dec 2009
Short-term bank loans	130,355	148,306	8,331	9,478
Short-term portion of long-term bank loans	23,933	72,219	1,530	4,616
Short-term portion of finance lease liabilities	32,768	42,434	2,094	2,712
<b>Total current loans and borrowings</b>	<b>187,056</b>	<b>262,959</b>	<b>11,955</b>	<b>16,806</b>
Long-term portion of bank loans	241,411	214,093	15,429	13,683
Long-term portion of finance lease-liabilities	37,881	64,836	2,421	4,145
Other long-term loans	15,399	15,399	984	983
<b>Total non-current loans and borrowings</b>	<b>294,691</b>	<b>294,328</b>	<b>18,834</b>	<b>18,811</b>

The discontinuance of the consolidation of the subsidiary Nordecon Infra SIA (see note 4) reduced interest-bearing loans and borrowings by 44,823 thousand kroons (2,865 thousand euros).



## NOTE 8. Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of shares outstanding during the period. Diluted earnings per share are calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of shares outstanding during the period, both adjusted for the effects of all dilutive equity instruments.

	9M 2010	EEK'000 9M 2009	9M 2010	EUR'000 9M 2009
Profit/loss for the period attributable to owners of the parent	-89,531	65,436	-5,722	4,182
Weighted average number of shares (in thousands)	30,757	30,757	30,757	30,757
		EEK		EUR
Basic earnings per share	-2.91	2.13	-0.19	0.14
Diluted earnings per share	-2.91	2.13	-0.19	0.14

Nordecon International AS has not issued any share options or other convertible instruments. Therefore, diluted earnings per share equal basic earnings per share.

## NOTE 9. Segment reporting – business segments

The Group's chief operating decision maker is the board of the parent company Nordecon International AS. This group of persons monitors the Group's internally generated financial information on a regular basis to better allocate the resources and assess their utilisation. Reportable operating segments are identified by reference to monitored information.

The operating segments monitored by the chief operating decision maker include both a business and a geographical dimension. The Group's reportable operating segments are:

- Buildings (European Union)
- Buildings (Ukraine)
- Infrastructure (European Union)

Other segments comprise insignificant operating segments whose results are not reviewed by the chief operating decision maker on the basis of internally generated financial information.

The chief operating decision maker assesses the performance of an operating segment and the utilisation of the resources allocated to it through the profit generated by the segment. The profit of an operating segment is its gross profit that does not include any major exceptional expenditures (such as non-recurring asset write-downs). The expenses after the profit of an operating segment (including distribution and administrative expenses, interest expense, income tax expense) are not used by the chief operating decision maker to assess the performance of the segment on the basis of internally generated financial information. Such expenses are recorded in segment reporting using the same principles that are applied on their recognition in the financial statements.

Significant adjustments are related to the revenue, profit and assets of the Group's parent company because a holding company that does not engage in the core business activities does not constitute an operating segment.

## 9 months

EEK'000 9 months 2010	Buildings EU	Buildings Ukraine	Infrastructure EU	Other segments	Total
Total revenue	514,486	49,869	615,100	41,625	1,221,080
Inter-segment revenue	-18,748	-169	-2,548	-23,093	-44,558
<b>Revenue from external customers</b>	<b>495,738</b>	<b>49,700</b>	<b>612,552</b>	<b>18,532</b>	<b>1,176,522</b>
<b>Segment profit / loss</b>	<b>-2,108</b>	<b>7,409</b>	<b>-3,195</b>	<b>-5,498</b>	<b>-3,392</b>



9 months 2009	Buildings EU	Buildings Ukraine	Infrastructure EU	Other segments	Total
Total revenue	828,343	43,858	1,185,331	54,522	2,112,054
Inter-segment revenue	-132	-5	-109,383	-38,709	-148,229
<b>Revenue from external customers</b>	<b>828,211</b>	<b>43,853</b>	<b>1,075,948</b>	<b>15,813</b>	<b>1,963,825</b>
<b>Segment profit</b>	<b>86,333</b>	<b>2,604</b>	<b>35,349</b>	<b>2,478</b>	<b>126,764</b>
Segment assets	Buildings EU	Buildings Ukraine	Infrastructure EU	Other segments	Total
At 30 September 2009	948,791	174,454	817,430	162,539	2,103,214
At 31 December 2009	834,580	174,488	646,928	115,928	1,771,924
<b>At 30 September 2010</b>	<b>773,190</b>	<b>169,230</b>	<b>616,936</b>	<b>99,609</b>	<b>1,658,965</b>

EUR'000 9 months 2010	Buildings EU	Buildings Ukraine	Infrastructure EU	Other segments	Total
Total revenue	32,882	3,187	39,312	2,660	78,041
Inter-segment revenue	-1,198	-11	-163	-1,476	-2,848
<b>Revenue from external customers</b>	<b>31,683</b>	<b>3,176</b>	<b>39,149</b>	<b>1,184</b>	<b>75,193</b>
<b>Segment profit / loss</b>	<b>-135</b>	<b>474</b>	<b>-204</b>	<b>-351</b>	<b>-217</b>

9 months 2009	Buildings EU	Buildings Ukraine	Infrastructure EU	Other segments	Total
Total revenue	52,941	2,803	75,756	3,485	134,985
Inter-segment revenue	-8	0	-6,991	-2,474	-9,473
<b>Revenue from external customers</b>	<b>52,933</b>	<b>2,803</b>	<b>68,765</b>	<b>1,011</b>	<b>125,512</b>
<b>Segment profit</b>	<b>5,518</b>	<b>166</b>	<b>2,259</b>	<b>158</b>	<b>8,101</b>
Segment assets	Buildings EU	Buildings Ukraine	Infrastructure EU	Other segments	Total
At 30 September 2009	60,639	11,150	52,243	10,388	134,420
At 31 December 2009	53,339	11,152	41,346	7,409	113,247
<b>At 30 September 2010</b>	<b>49,416</b>	<b>10,816</b>	<b>39,429</b>	<b>6,366</b>	<b>106,027</b>

### Q3

EEK'000 Q3 2010	Buildings EU	Buildings Ukraine	Infrastructure EU	Other segments	Total
Total revenue	270,219	14,966	278,497	23,441	587,123
Inter-segment revenue	-12,846	137	29,047	-11,510	4,828
<b>Revenue from external customers</b>	<b>257,373</b>	<b>15,103</b>	<b>307,544</b>	<b>11,931</b>	<b>591,951</b>

<b>Segment profit / loss</b>	<b>20,248</b>	<b>4,364</b>	<b>28,089</b>	<b>-175</b>	<b>52,526</b>
Q3 2009	Buildings EU	Buildings Ukraine	Infrastructure EU	Other segments	Total
Total revenue	253,760	15,498	549,891	27,442	846,591
Inter-segment revenue	1,963	-5	-90,381	-16,875	-105,298
<b>Revenue from external customers</b>	<b>255,723</b>	<b>15,493</b>	<b>459,510</b>	<b>10,567</b>	<b>741,293</b>
<b>Segment profit</b>	<b>29,068</b>	<b>3,112</b>	<b>26,765</b>	<b>6,599</b>	<b>65,544</b>



<b>EUR'000</b>	<b>Buildings</b>	<b>Buildings</b>	<b>Infrastructure</b>	<b>Other</b>	<b>Total</b>
<b>Q3 2010</b>	<b>EU</b>	<b>Ukraine</b>	<b>EU</b>	<b>segments</b>	
Total revenue	17,270	957	17,799	1,498	37,524
Inter-segment revenue	-821	9	1,856	-736	309
<b>Revenue from external customers</b>	<b>16,449</b>	<b>965</b>	<b>19,656</b>	<b>763</b>	<b>37,833</b>
<b>Segment profit / loss</b>	<b>1,294</b>	<b>279</b>	<b>1,795</b>	<b>-11</b>	<b>3,357</b>
<b>Q3 2009</b>	<b>Buildings</b>	<b>Buildings</b>	<b>Infrastructure</b>	<b>Other</b>	<b>Total</b>
	<b>EU</b>	<b>Ukraine</b>	<b>EU</b>	<b>segments</b>	
Total revenue	16,218	990	35,144	1,754	54,106
Inter-segment revenue	126	0	-5,777	-1,079	-6,730
<b>Revenue from external customers</b>	<b>16,344</b>	<b>990</b>	<b>29,367</b>	<b>675</b>	<b>47,376</b>
<b>Segment profit</b>	<b>1,858</b>	<b>198</b>	<b>1,710</b>	<b>421</b>	<b>4,187</b>

## Reconciliation of segment revenues

<b>EEK'000</b>	<b>9M 2010</b>	<b>Q3 2010</b>	<b>9M 2009</b>	<b>Q3 2009</b>
Total revenues for reportable segments	1,179,455	563,682	2,057,532	819,149
Revenue for other segments	41,625	23,441	54,522	27,442
Elimination of inter-segment revenues	-44,558	4,828	-148,228	-105,297
Other revenue	989	360	3,814	1,252
<b>Total consolidated revenue</b>	<b>1,177,511</b>	<b>592,311</b>	<b>1,967,640</b>	<b>742,546</b>

<b>EUR'000</b>	<b>9M 2010</b>	<b>Q3 2010</b>	<b>9M 2009</b>	<b>Q3 2009</b>
Total revenues for reportable segments	75,381	36,026	131,500	52,353
Revenue for other segments	2,660	1,498	3,485	1,754
Elimination of inter-segment revenues	-2,848	309	-9,474	-6,730
Other revenue	63	23	244	80
<b>Total consolidated revenue</b>	<b>75,257</b>	<b>37,856</b>	<b>125,755</b>	<b>47,457</b>

## Reconciliation of segment profit

<b>EEK'000</b>	<b>9M 2010</b>	<b>Q3 2010</b>	<b>9M 2009</b>	<b>Q3 2009</b>
Total profit for reportable segments	2,106	48,489	124,287	58,945
Total profit or loss for other segments	-5,498	-175	2,478	6,599
Other profit or loss	-5,152	-11,654	38,457	15,325
<b>Total</b>	<b>-8,544</b>	<b>36,660</b>	<b>165,222</b>	<b>80,869</b>
Unallocated expenses:				
Distribution expenses	-4,442	-1,316	-6,790	-2,427
Administrative expenses	-52,700	-17,143	-95,882	-30,532
Other operating income and expenses	-4,946	-3,271	-17,941	-8,466
<b>Consolidated operating profit / loss</b>	<b>-70,632</b>	<b>14,930</b>	<b>44,609</b>	<b>39,444</b>
Finance income	44,071	1,790	35,810	4,130
Finance expenses	-67,774	-44,547	-26,845	-3,933
Share of profit / loss of equity accounted investees	-4,367	-3,736	-1,523	1,360
<b>Consolidated profit / loss before tax</b>	<b>-98,702</b>	<b>-31,563</b>	<b>52,050</b>	<b>41,001</b>



EUR'000	9M 2010	Q3 2010	9M 2009	Q3 2009
Total profit for reportable segments	135	3,099	7,943	3,767
Total profit or loss for other segments	-351	-11	158	422
Other profit or loss	-329	-744	2,458	979
<b>Total</b>	<b>-546</b>	<b>2,344</b>	<b>10,560</b>	<b>5,168</b>
Unallocated expenses:				
Distribution expenses	-284	-84	-434	-155
Administrative expenses	-3,368	-1,096	-6,128	-1,951
Other operating income and expenses	-316	-209	-1,147	-541
<b>Consolidated operating profit / loss</b>	<b>-4,514</b>	<b>954</b>	<b>2,851</b>	<b>2,521</b>
Finance income	2,817	114	2,289	264
Finance expenses	-4,332	-2,847	-1,716	-251
Share of profit / loss of equity accounted investees	-279	-239	-97	87
<b>Consolidated profit / loss before tax</b>	<b>-6,308</b>	<b>-2,017</b>	<b>3,326</b>	<b>2,620</b>

## Reconciliation of segment assets

	EEK'000				EUR'000	
	30 Sept 2010	31 Dec 2009	30 Sept 2009	30 Sept 2010	31 Dec 2009	30 Sept 2009
Total assets for reportable segments	1,630,228	1,711,771	1,940,675	104,191	109,402	124,032
Total assets from other segments	99,608	142,885	162,539	6,366	9,132	10,388
Inter-segment eliminations	-70,872	-82,462	-202,061	-4,530	-5,270	-12,914
Other assets	42,382	118,498	338,495	2,709	7,573	21,634
<b>Total consolidated assets</b>	<b>1,701,346</b>	<b>1,890,692</b>	<b>2,239,648</b>	<b>108,736</b>	<b>120,837</b>	<b>143,140</b>

## NOTE 10. Segment reporting – geographical information

EEK'000	9M 2010	Q3 2010	9M 2009	Q3 2009
<b>Revenue</b>				
Estonia	1,127,811	577,208	1,671,410	643,174
Ukraine	35,652	1,932	43,858	15,498
Lithuania	0	0	10,666	4
Latvia	0	0	242,594	84,082
Belarus	14,217	13,034	0	0
Inter-segment eliminations	-169	137	-888	-212
<b>Total revenue</b>	<b>1,177,511</b>	<b>592,311</b>	<b>1,967,640</b>	<b>742,546</b>

EUR'000	9M 2010	Q3 2010	9M 2009	Q3 2009
<b>Revenue</b>				
Estonia	72,080	36,891	106,822	41,106
Ukraine	2,279	123	2,803	990
Belarus	909	833	0	0
Lithuania	0	0	682	1
Latvia	0	0	15,505	5,374
Inter-segment eliminations	-11	9	-57	-14
<b>Total revenue</b>	<b>75,257</b>	<b>37,856</b>	<b>125,755</b>	<b>47,457</b>



## NOTE 11. Cost of sales

	9M 2010	EEK`000 9M 2009	9M 2010	EUR`000 9M 2009
Cost of materials, goods and services used	1,005,561	1,522,985	64,267	97,337
Personnel expenses	135,230	219,563	8,643	14,033
Depreciation and amortisation expense	33,589	48,962	2,147	3,129
Other expenses	11,675	10,908	746	697
<b>Total cost of sales</b>	<b>1,186,055</b>	<b>1,802,418</b>	<b>75,803</b>	<b>115,196</b>

## NOTE 12. Administrative expenses

	9M 2010	EEK`000 9M 2009	9M 2010	EUR`000 9M 2009
Personnel expenses	29,834	27,663	1,907	249
Cost of materials, goods and services used	16,941	60,312	1,083	3,855
Depreciation and amortisation expense	3,224	3,899	206	1,768
Other expenses	2,701	4,008	173	256
<b>Total administrative expenses</b>	<b>52,700</b>	<b>95,882</b>	<b>3,368</b>	<b>6,128</b>

## NOTE 13. Other operating income and expenses

Other operating income	9M 2010	EEK`000 9M 2009	9M 2010	EUR`000 9M 2009
Gains on sale of property, plant and equipment and intangible assets	3,263	2,917	208	186
Gains on sale of investment property	285	0	18	0
Foreign exchange gain	789	0	50	0
Other income	3,437	19,260	220	1,231
<b>Total other operating income</b>	<b>7,774</b>	<b>22,177</b>	<b>497</b>	<b>1,417</b>

Other operating expenses	9M 2010	EEK`000 9M 2009	9M 2010	EUR`000 9M 2009
Losses on sale and write-off of property, plant and equipment and intangible assets	18	1,174	1	75
Write-off of goodwill (note 4)	1,710	0	109	0
Losses of sale of investment property	2,023	0	130	0
Foreign exchange losses	7,014	23	448	2
Impairment losses on receivables	29	18,620	2	1,190
Membership fees	84	106	5	7
Other expenses	1,842	20,195	118	1,290
<b>Total other operating expenses</b>	<b>12,720</b>	<b>40,118</b>	<b>813</b>	<b>2,564</b>

## NOTE 14. Finance income and expenses

Finance income	9M 2010	EEK`000 9M 2009	9M 2010	EUR`000 9M 2009
Gains on disposal of investments in subsidiaries and associates	32,626	0	2,085	0
Finance income on other investments	0	18,306	0	1,170
Interest income on loans	8,688	6,618	556	423
Foreign exchange gains	568	10,342	36	661
Other finance income	2,188	543	140	35
<b>Total finance income</b>	<b>44,070</b>	<b>35,809</b>	<b>2,817</b>	<b>2,289</b>



Gains on disposal of investments comprise gain on the sale of the subsidiary Nordecon Infra SIA of 32,594 thousand kroons (2,083 thousand euros) (see also note 4) and gain on the sale of the subsidiary Bukovina Development TOV of 33 thousand kroons (2 thousand euros).

Finance expenses	EEK`000		EUR`000	
	9M 2010	9M 2009	9M 2010	9M 2009
Interest expense	11,545	22,043	738	1,409
Finance expenses on investments	0	0	0	0
Foreign exchange losses	72	3,403	5	218
Other finance expenses	56,156	1,399	3,589	89
<b>Total finance expenses</b>	<b>67,773</b>	<b>26,845</b>	<b>4,332</b>	<b>1,716</b>

After the sale of the subsidiary Nordecon Infra SIA, the Group wrote down receivables from the Latvian entity which previously had been classified as intra-Group loans since their recovery had become doubtful. Write-down expenses totalled 14,175 thousand kroons (906 thousand euros).

As at 30 September 2010, the Group wrote down all loans (including interest receivables) due from companies involved with the construction of the Pärnu Centre. The said companies are insolvent and have not fulfilled their obligations to the Group. The write-down expenses have been recognised in other finance expenses in an amount of 40,245 thousand kroons (2,572 thousand euros).

## NOTE 15. Transactions with related parties

For the purposes of these financial statements, parties are related if one controls the other or exerts significant influence (assumes holding more than 20% of the voting power) on the other's operating decisions. Related parties include:

- Nordecon International AS' parent company AS Nordic Contractors and its shareholders
- Other companies of AS Nordic Contractors group
- Equity accounted investees of Nordecon International Group
- Members of the board and council of Nordecon International AS, their close family members and companies related to them
- Individuals whose shareholding implies significant influence

During the reporting period, Group entities performed purchase and sales transactions with related parties in the following volumes:

Volume of transactions performed	9M 2010		EEK`000 9M 2009		9M 2010		EUR`000 9M 2009	
	Purchase	Sale	Purchase	Sale	Purchase	Sale	Purchase	Sale
AS Nordic Contractors	5,550	51	5,778	1,372	355	3	369	88
Companies of AS Nordic Contractors group	31	14,688	0	149,098	2	939	0	9,529
Equity accounted investees	0	403	0	0	0	26	0	0
Companies related to a member of the council	0	48	1,517	0	0	3	97	0
<b>Total</b>	<b>5,581</b>	<b>15,190</b>	<b>7,295</b>	<b>150,470</b>	<b>357</b>	<b>971</b>	<b>466</b>	<b>9,617</b>



	9M 2010		EEK`000 9M 2009		9M 2010		EUR`000 9M 2009	
Volume of transactions performed	Purchase	Sale	Purchase	Sale	Purchase	Sale	Purchase	Sale
Construction services	0	14,464	0	148,684	0	924	0	9,503
Purchase and sale of goods	0	0	0	1,786	0	0	0	114
Lease and other services	5,581	726	7,295	0	357	47	466	0
<b>Total</b>	<b>5,581</b>	<b>15,190</b>	<b>7,295</b>	<b>150,470</b>	<b>357</b>	<b>971</b>	<b>466</b>	<b>9,617</b>

Transactions with related parties are conducted on market terms or using effective transfer pricing principles.

#### Receivables from and liabilities to related parties at period-end:

EEK`000	30 Sept 2010		31 Dec 2009	
	Receivables	Liabilities	Receivables	Liabilities
AS Nordic Contractors	0	740	21	809
Companies of AS Nordic Contractors group	36,136	0	32,421	15
Companies related to a member of the council	519	0	0	0
Equity accounted investees – receivables	18,785	0	15,793	6
Equity accounted investees – loans and interest	142,725	0	140,795	0
<b>Total</b>	<b>198,165</b>	<b>740</b>	<b>189,031</b>	<b>830</b>

EUR`000	30 Sept 2010		31 Dec 2009	
	Receivables	Liabilities	Receivables	Liabilities
AS Nordic Contractors	0	47	1	52
Companies of AS Nordic Contractors group	2,310	0	2,072	1
Companies related to a member of the council	33	0	0	0
Equity accounted investees – receivables	1,200	0	1,009	0
Equity accounted investees – loans and interest	9,122	0	8,998	0
<b>Total</b>	<b>12,665</b>	<b>47</b>	<b>12,080</b>	<b>53</b>

Receivables from companies of AS Nordic Contractors group and equity accounted investees are mainly related to the provision of construction services.

The remuneration of the members of the council of Nordecon International AS for the first nine months of 2010 including associated social security charges totalled 1,077 thousand kroons (69 thousand euros). The corresponding figure for the first nine months of 2009 was also 1,077 thousand kroons (69 thousand euros). The service fees and bonus benefits calculated for the members of the board of Nordecon International AS in the first nine months of 2010 together with associated social security charges totalled 1,493 thousand kroons (95 thousand euros). The corresponding figure for the first nine months of 2009 was 2,701 thousand kroons (173 thousand euros). The remuneration and benefits of the board have decreased because in the comparative period the board had three members whereas in the reporting period the number was two.